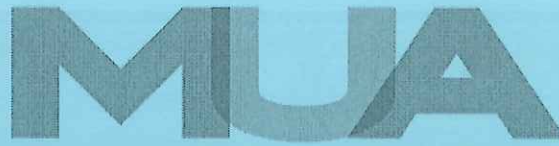


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/ BACHELOR
OF COMMERCE

BML 200/BCM 215: MICRO - ECONOMICS/ INTERMEDIATE
MICROECONOMICS

DATE: 13TH DECEMBER 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question ONE is compulsory.
5. Answer any other **THREE** questions.
6. Question one carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) Using specific examples, explain 'Ceteris Paribus' as used in economic (3 marks)
- b) Why is the consumer said to be sovereign (4 marks)
- c) What factors limit this sovereignty? (4 marks)
- d) Give the meaning of the term 'Price Control' (2 marks)
- e) Explain the circumstances under which price control is considered necessary (4 marks)
- f) With the aid of well-labeled diagrams, distinguish between price floors and Price ceilings (3 marks)
- g) What are the major consequences of each of the price control measures? (5 marks)

QUESTION TWO

- a) Define the term cross price elasticity of demand and clearly explain its value for substitutes and complementary commodities (4 marks)
- b) Use the data in the table below to compute income elasticity of demand through the arc elasticity method:

Quantity (Units)	Income (Shs)	Price (Shs)
100	5000	16
120	6000	16

- (2 marks)
- c) Discuss any three practical applications of the concept of elasticity of demand in management and economic policy decision making (3 marks)
- d) The demand for a commodity is five units when the price is sh. 1,000 per unit. When price per unit falls to Sh. 600 the demand rises to six units. Compute the point and arc elasticity of demand (4 marks)

- e) State the main determinants of elasticity of demand (2 marks)

QUESTION THREE

- (a) Define marginal utility and clearly explain the axiom of diminishing marginal utility. (3 marks)
- (b) Illustrate and explain the following:
- (i) Consumer equilibrium under the cardinalist approach (6 marks)
 - (ii) Consumer equilibrium under the ordinalist approach (6 marks)

QUESTION FOUR

- a) What are the main factors of production? (4 marks)
- b) Define the term 'production function' (2 marks)
- c) What determines the supply and demand of the factors of production that you have identified in (a) above? (9 marks)

QUESTION FIVE

- a) What is meant by economies and diseconomies of scale? (5 marks)
- b) Write explanatory notes on the various types of internal and external economies of scale. (10 marks)

QUESTION SIX

- a) Assume the following information represents the National Income Model of an 'Utopian' economy.

$$Y = C + I + G$$

$$C = a + b(Y - T)$$

$$T = d + tY$$

$$I = I_0$$

$$G = G_0$$

Where $a > 0$; $0 < b < 1$
 $d > 0$; $0 < t < 1$
 $T = \text{Taxes}$

I = Investment

G = Government Expenditure

- i. Explain the economic interpretation of the parameters a , b , d and t .
(4 marks)
- ii. Find the equilibrium values of income, consumption and taxes.
(5 marks)
- b) Discuss the three approaches used in measuring the national income of a country and show why they give the same estimate.
(6 marks)